

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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April 3, 2008

Mr. James M. Kemp
Executive Director
Santa Barbara County Association of Governments
260 North San Antonio Road, Suite B
Santa Barbara, California 94585

Re: Santa Barbara County Association of Governments
Audit of Indirect Cost Allocation Plan for Fiscal Year 2008
File No: P1190-0633

Dear Mr. Kemp:

We have audited the Santa Barbara County Association of Governments (SBCAG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The SBCAG management is responsible for the fair presentation of the ICAP. The SBCAG proposed an indirect cost rate of 60.18 % of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the SBCAG. Therefore, we did not audit and are not expressing an opinion on the SBCAG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the SBCAG, as well as evaluating the overall presentation.

The accompanying ICAP is prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the SBCAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a comparison of the ICAP to single audit report for the fiscal year ended June 30, 2006, inquiries of SBCAG personnel, a limited review of the Overall Work Program and a comparison of the FY 2008 ICAP to prior years ICAP. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAP as of July 25, 2007. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration the SBCAG response dated March 28, 2008 to our draft findings. Our findings and recommendations, a summary of SBCAG's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, the SBCAG ICAP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate of 60.18% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Audit Findings

Finding 1

We noted that the SBCAG's Overall Work Program (OWP) Work Element 1810, 1710 and 1610 (Administration) for Fiscal years 2008, 2007 and 2006, respectively, include activities that are administrative in nature and should be treated as indirect costs. Our testing found that for fiscal years 2006 and 2007, SBCAG incorrectly billed as direct labor costs, labor costs that appear to be administrative in nature. These costs were captured under the Administrative work elements identified above. The general administrative activities that benefit all programs/projects of SBCAG should be treated as indirect costs. Directly charging administrative activities to a primarily federally funded work element will result in the federal government paying a disproportionate share of indirect costs. Additionally, we

noted activities to provide services to the SBCAG Governing Board, such as preparing agendas or minutes, staff reports, and follow-up action log were also charged directly under the above mentioned work elements. The time and expenses incurred by or in support of the Governing Board are considered unallowable general governmental expenses and should not be charged, directly or indirectly, to Federal or State funding sources.

OMB A-87, Attachment E, Paragraph A.1 defines indirect costs as those incurred for common or joint purposes and benefiting more than one cost objective. OMB A-87 Attachment B, #19 states in part, that the general costs of government are unallowable, including the salaries and other expenses of a State legislature, tribal council, or similar local governmental body, such as a county supervisor, city council, school board, etc., whether incurred for purposes of legislation or executive direction.

Recommendation

We recommend that SBCAG revise its fiscal year 2007/08 OWP so that indirect and unallowable activities are segregated from other allowable, direct activities. We further recommend that SBCAG separately account for the time and expenses incurred by or in support of its Governing Board from other allowable activities to ensure that such costs are not included in requests for reimbursement from federal or State funding sources. Finally, we recommend that the SBCAG identify all previously billed costs to the Department under the OWP WE number 1610 for FY 2006 and 1710 for FY 2007 and reimburse the Department for these costs. The reimbursement should be identified as a line item and supported by documentation. We will subsequently conduct follow-up audit work of the SBCAG's method of determining the amount of overpayment and reimbursement of costs to the SBCAG by the Department.

Auditee's Response

The finding was discussed with Martha Gibbs, SBCAG Finance Officer, on September 13, 2007. In its response dated March 28, 2008, the SBCAG stated for the past 25+ years Caltrans has historically approved the SBCAG OWP and ICAP submittals which have included the questioned administrative work element. SBCAG also stated that although it is willing to comply with this finding, SBCAG is concerned over allowing this work element as a direct cost for years and then suddenly being informed of its ineligibility. This sends an unclear message and makes it appear SBCAG has inappropriately received direct reimbursement although SBCAG was approved to do so.

Additionally, as a result of FHWA's recent interpretation regarding costs in support of the board (i.e. preparing agendas, minutes, staff reports and follow-up action logs), it has been determined that these costs are allowable since they are costs in support of the federal 3-C transportation planning process and are allowable per OMB-A87, Attachment B, 19(b). Based on the recent determination by the federal DOT, SBCAG requests that the relevant portion of this finding be deleted and that it be permitted to continue to receive reimbursement for costs associated with supporting eligible board activities including executive secretary salary, staff time for preparing and distributing board agendas and reports, meeting minutes, meeting attendance, etc.

Analysis of Response

Subsequent to SBCAG's response, the FHWA Headquarters provided further clarification of its earlier statement regarding its interpretation of the allowability of general government expenses, specifically board related expenses, and stated that it was still reviewing and analyzing the questions and will provide the FHWA Regional Office with a final response. As such, we are not able to place reliance on FHWA's preliminary interpretation of general government costs and therefore our finding and recommendation still remain.

Finding 2

The SBCAG included unallowable expenses in its indirect cost pool, resulting in an overstated indirect cost rate. The specific expenses and relevant regulations are listed below:

- (a) Postage costs related to the SBCAG Board, the salary and benefit costs for the Executive Secretary for performing Board related activities were identified in the indirect cost pool. OMB A-87 Attachment B, item 19a (1) and (2) states, in part, that the general costs of government, such as salaries and other expenses of the chief executive of a political subdivision and the local governmental board, are unallowable.
- (b) Legal fees previously paid by the Transportation Development Act Fund were identified in the indirect cost pool. OMB A-87 Attachment B, item 24 states that the cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost.

Recommendation

Per our request and subsequent to our field work, the SBCAG removed the unallowable costs from the indirect cost pool as these materially affected the proposed rate. However, we recommend that the SBCAG ensure that, in the future, costs that do not meet the allowability criteria established by the OMB A-87 be excluded from the indirect cost pool.

Auditee's Response

The finding was discussed with Martha Gibbs, SBCAG Finance Officer, on September 13, 2007. In its response dated March 28, 2008, the SBCAG requested that this finding be partially deleted as a result of the FHWA preliminary interpretation of the allowability of general government expenses, specifically board related expenses. In its response, the SBCAG also agreed with part (b) of this finding and stated that that this resulted from an oversight and since then SBCAG corrected the error and has put into place safeguards to ensure this error does not happen in future ICAP submittals.

Analysis of Response

As stated in our analysis to Finding 1 above, the FHWA Headquarters is reviewing and analyzing the questions submitted by the FHWA Regional Office regarding Board costs, therefore our finding and recommendation remain.

Finding 3

During our testing of indirect costs, we found that two out of three credit card statements lacked copies of purchase receipts and a CAL-Card Usage report was not submitted. Consequently, the credit card purchases on the two statements were not supported and the costs were not reviewed and approved as required. According to the SBCAG credit card usage policy and procedures, all expenditures made on a SBCAG assigned credit card must be supported by original receipts and the expenditures must be summarized on the CAL-Card Usage Report which must be turned in after a purchase is made and signed by employee and supervisor.

Additionally, during our review of the credit card statement, we found one instance where the travel costs lacked a Travel Authorization form to substantiate the approval of travel costs. The SBCAG travel policy requires that any travel must be pre-approved by the employee supervisor and the executive director prior to making arrangements. Also, OMB A-87 Attachment A, 1 e and j, state, in part, that to be allowable, a cost must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit and also be adequately documented. Non compliance with the SBCAG's established policies and procedures may reduce the effectiveness of its policy and procedures and could also result in the disallowance of costs.

Recommendation

We recommend that the SBCAG strengthen its internal controls and ensure compliance, by all employees, with its own policy and procedures and OMB A-87.

Auditee's Response

The finding was discussed with Martha Gibbs, SBCAG Finance Officer, on September 13, 2007. In its response dated March 28, 2008, the SBCAG agreed with our finding and stated that in August of 2007, upon the Caltrans' audit, a memo was circulated to SBCAG staff reminding them of internal policy and procedures that need to be followed. In addition, Finance Officer began to perform quality control procedures to ensure that internal policy is being adhered to.

Analysis of Response

We commend the SBCAG for the steps it has taken to ensure policies are being followed. Subsequent audits will verify continued compliance. The finding and recommendation remain.

Finding 4

The direct salaries and benefit costs and indirect costs for the Service Authority for Freeway Emergencies (SAFE) Fund and the Traffic Solutions Fund were excluded from the SBCAG's total direct salaries and benefits (base) and indirect cost pool for FY 2006 and FY 2008. CFR 49, Part 18.20 (b) (1), states, in part that accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. Not capturing all SBCAG direct salaries and benefits in the allocation base, and not including all allowable indirect costs will result in an incorrect indirect rate and an improper allocation of indirect costs.

Recommendation

Per our request, and subsequent to our field work, the SBCAG revised the ICAP and included in the allocation base for FY 2006 and FY 2008, all SBCAG employee direct salary and benefit costs. SBCAG also revised the indirect cost pool to include the SAFE and Traffic Solutions Funds costs. In the future, the SBCAG should ensure that the ICAP allocation base includes all allowable direct labor and benefits and that the ICAP indirect cost pool includes all allowable indirect costs.

Auditee's Response

The finding was discussed with Martha Gibbs, SBCAG Finance Officer, on September 13, 2007. In its response dated March 28, 2008, the SBCAG agreed with our finding and stated that all SBCAG salaries and benefits, regardless of what program or funding source, are being included as part of the indirect cost calculation.

Analysis of Response

Our finding and recommendation remain.

Finding 5

During our review of direct labor costs, we found that the Executive Director's timesheets did not contain a secondary signature acknowledging the review and approval of the timesheets. CFR 49, Part 18.20 (b) (3), states, in part that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property and other assets. With no secondary signature to acknowledge the review and approval of the Executive Director's timesheets, there is a risk that potential time reporting errors may go undetected.

Recommendation

We recommend the SBCAG Board designate a Board member(s) to sign the Executive Director's timesheet to ensure that the Executive Directors timesheets undergo the same review and approval process as other SBCAG personnel timesheets.

Auditee's Response

The finding was discussed with Martha Gibbs, SBCAG Finance Officer, on September 13, 2007. In its response dated March 28, 2008, the SBCAG stated that, although it appears inappropriate to have a subordinate staff approve/sign the Executive Director's timesheet, the Administrative Services Officer (Business Manager) has been assigned this task.

Analysis of Response

We agree with SBCAG that it is inappropriate for subordinate staff to approve/sign the Executive Director's timesheet, therefore we changed the recommendation to state that the SBCAG Board should assign a Board member(s) to review/approve/sign the Executive Director timesheets..

This report is intended solely for the information of the SBCAG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plans for your files. Copies were sent to the Department's District 5, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Elena Guerrero at (916) 323-7954 or Amada Maenpaa, Audit Supervisor, at (916) 323-7868.



MARYANN CAMPBELL-SMITH
Chief External Audits

Attachments

c: Brenda Bryant, FHWA
Gary Buckhammer, HQ Accounting
Andrew Knapp, Division of Planning
Mike Giuliano, District 5
Patricia Mickelson, District 5
P1190-0633

SANTA BARBARA COUNTY ASSOCIATION OF GOVERNMENTS

INDIRECT COST PLAN

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Santa Barbara County Association of Governments and approved by Caltrans.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry-forward	7/1/07 to 6/30/08	60.18%	All programs

* Base: Total direct salaries and wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rate(s) in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rate(s) is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; (4) The information provided by the organization which was used to establish the rate(s) is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry-Forward:

The fixed rate used in this agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined – either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements – any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

FY 2007-08 Budgeted Indirect Costs: (from Attachment 1)	\$971,559
Under (Over) Recovery Carry-Forward from FY 2005-06: (from Attachment 2)	<u>58,643</u>
Estimated FY 2007-08 Indirect Costs:	\$1,030,202
FY 2007-08 Budgeted Direct Salaries and Wages Plus Fringe Benefits: (from Attachment 1)	\$1,711,911
FY 2007-08 Indirect Cost Rate:	60.18%


CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect cost rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently, and the Federal Government and Caltrans will be notified of any accounting changes that would affect the predetermined rate.


I declare that the foregoing is true and correct.

Santa Barbara County Association of Governments


Signature

Reviewed, approved and submitted by:

Name: Jim Kemp
Title: Executive Director
Date: March 12, 2007


Signature

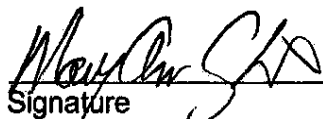
Prepared by:

Name: Martha Gibbs
Title: Finance Officer
Phone: (805) 961-8916

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Reviewed and approved by:


Signature

Name: Mary Ann Campbell Smith
Title: Chief, External Audits
Date: 4/4/08
Phone: (916) 323-7105


Signature

Name: Elena Guerrero
Title: Auditor
Date: 4/4/08
Phone: (916) 323-7954

Santa Barbara County Association of Governments
Indirect Carry Forward Calculation

	<u>FY 2003</u>	<u>FY 2004</u>	<u>FY 2005</u>	<u>FY 2006</u>	<u>FY 2007</u>	<u>Estimated FY 2008</u>
Approved IC Rate	55.48%	55.22%	59.70%	50.95%	53.20%	60.18%
Indirect Carry Forward						
Carry Forward	\$54,741	\$63,535	\$89,855	\$35,514	(\$19,723)	58,643
Indirect Costs Per Single Audit	524,064	536,992	541,178	773,732		971,559
Total Indirect Costs (1)	578,805	600,527	631,033	809,246	(19,723)	1,030,202
Direct Salaries + Fringe Benefits	881,308	1,023,202	1,090,045	1,473,216		1,711,911
Approved Rate	55.48%	55.22%	59.70%	50.95%	53.20%	
Recovered Indirect Costs (2)	488,950	565,012	650,757	750,604	0	
Indirect Carry Forward (1)-(2)	\$89,855	\$35,514	(\$19,723)	\$58,643	(\$19,723)	

Direct Salaries + Fringe Benefits (Per Single Audit)

Direct Salaries + Fringe Benefits	1,096,594	1,273,301	1,364,267	1,880,647	0
Less General Fund Indirect Salaries	(215,286)	(250,099)	(274,222)	(407,431)	0
Total Direct Salaries + Fringe Benefits	881,308	1,023,202	1,090,045	1,473,216	

**Santa Barbara County Association of Governments
FY 07-08 Recommended Budget**

<u>Cost Description</u>	<u>Direct Costs</u>	<u>Indirect Costs</u>	<u>Unallowable Costs</u>	<u>Total Budget</u>
Salaries	\$1,277,513	\$338,310	\$23,102	\$1,638,925
Benefits	434,398	146,799	2,841	584,038
Subtotal	<u>1,711,911</u>	<u>485,109</u>	<u>25,943</u>	<u>2,222,963</u>
Communications	0	12,650	0	12,650
Insurance	0	27,700	16,800	44,500
Audit Fees	0	26,700	27,300	54,000
Janitorial & Maintenance	0	23,900	0	23,900
Memberships	0	0	12,500	12,500
Office Expense	0	31,300	14,800	46,100
Postage	0	3,000	500	3,500
Copier Costs	0	7,500	0	7,500
Professional & Special Services	0	95,300	364,900	460,200
ADP Payroll Fees	0	7,400	0	7,400
Publications & Legal Notices	0	5,800	0	5,800
Office Lease	0	109,500	0	109,500
Meeting Expenses	0	6,700	1,500	8,200
Charges for County Services	0	57,800	0	57,800
Transportation & Travel	0	45,000	3,000	48,000
Utilities	0	16,700	0	16,700
Interest Expense	0	0	0	0
Reprographics	0	0	0	0
Phone System Equipment	0	9,500	0	9,500
Principal Repayment	0	0	0	0
Fixed Assets	0	0	14,000	14,000
Subtotal	<u>0</u>	<u>486,450</u>	<u>455,300</u>	<u>941,750</u>
Total Budget	<u>\$1,711,911</u>	<u>\$971,559</u>	<u>\$481,243</u>	<u>\$3,164,713</u>